IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

ATARI, INC., a Delaware corporation, and MIDWAY MFG. CO., an Illinois corporation, Plaintiffs, vs.	)	No. 81 C 6434
NORTH AMERICAN PHILIPS CONSUMER ELECTRONICS CORP., a Tennessee corporation, PARK TELEVISION d/b/a PARK MAGNAVOX HOME ENTERTAINMENT CENTER, an Illinois partnership, and ED AVERETT, an individual, Defendants.	)	Before the Honorable George N. Leighton United States District Judge

Memorandum

I

This video game litigation, a prolific source of pretrial procedural disputes, has now produced a motion by one of the plaintiffs, with its lawyers leading the charge, seeking to disqualify a firm of lawyers from representing the defendants. The ground for the motion is a claim that before appearing as counsel in this

case, the firm represented an amusement game manufacturers association to which the moving party's parent corporation belonged; and that during the period of representation, the law firm obtained confidential information concerning this case from the moving party.

The court has heard evidence consisting of the testimony of witnesses and exhibits offered and received. Findings of fact were made from the bench, and conclusions of law reached. Based thereon, the court denied the motion to disqualify. This memorandum is filed in compliance with Rule 52(a), Fed. R. Civ. P., and for guidance of the parties and their counsel. The following are the material facts which gave rise to the motion to disqualify.

II

This suit is a civil action filed in November 1981 by Atari, Inc., a Delaware corporation, and Midway Mfg. Co., an Illinois corporation, against North American Philips Consumer Electronics, a Tennessee corporation, Park Magnavox Home Entertainment Center, an Illinois partnership, and Ed Averett, an individual. Plaintiffs allege that defendants have infringed and are infring-

ing Midway's copyright in an audiovisual work, a video game now popularly known as "Pac-Man." No issue is raised by defendants as to the copyrightability of video games generally; defendants simply contest the validity of the particular copyrights issued to the plaintiffs.

Bally Midway Manufacturing Company, formerly known as Midway Manufacturing Company, a plaintiff in this case and the movant in these proceedings, is one of a number of subsidiaries of the Bally Manufacturing Company, hereafter referred to as "Bally". (Tr. 52-53 [Katz]) Midway is a leading developer and manufacturer of coin-operated video games; it owns exclusive rights under copyrights to numerous audio-visual works and is the owner of the United States copyright to the "Pac-Man" audio-visual work described in plaintiff's amended complaint. At all times relevant to this controversy, there existed a trade association of video game manufacturers known as Amusement Game Manufacturers' Association, hereafter referred to either as AGMA or "Association." Bally, Midway's parent, was admitted to membership in the Association on May 20, 1982. (Tr. 7,51 [Katz]; Tr. 92 [Maher]) The association is composed of corporations and individuals who manufacture video

games, as well as suppliers of components for such games. Midway, the subsidiary of Bally, has never been a member of the association. At the outset of this litigation, defendants have been represented by a firm of lawyers well known in this jurisdiction as specialists in patent, trademark, and copyright litigation. Reuben & Proctor, the firm of lawyers sought to be disqualified, was granted leave by this court on June 10, 1983 to file appearances as additional counsel for defendants.

It happens that from May 1, 1981 until December 31, 1982, Reuben & Proctor was general counsel for the Amusement Game Manufacturer's Association. David Maher was the Reuben & Proctor partner responsible for representation of the association. (Tr. 77-78; 81-82 [Maher]) The firm's principal concern in its representation was to avoid exchanges of information which might raise antitrust problems for the association and its members. (Tr. 78 [Maher]) The firm also attended to corporate law matters for the association, and coordinated the information exchange program as well as meetings of association members that required the presence of a lawyer from the firm. (Id.) During the times relevant to this controversy, Mr. Maher knew

that Bally was a member of the association and that Midway was one of its subsidiaries. Sidney Katz, Esq., a witness in these proceedings, is patent, trademark, and copyright counsel for Bally and some, but not all, of its subsidiaries. (Tr. 55 [Katz]) The subsidiaries he represents are those designated to him by Bally, and includes Midway. (Id.)

In February or March, 1982, Mr. Katz was invited to attend a meeting sponsored by the association (Tr. 7-8 [Katz]); this was several months before Bally had become a member. (Tr. 84 [Maher]) The stated purpose of the meeting "was . . .to discuss the copyright protection for video games" (Tr. 8 [Katz]); consequently, there was to be a general discussion of the status of video games under the trademark and copyright laws. (Tr. 9 [Katz]) In his testimony, Mr. Katz did not claim that any confidential information was furnished during this meeting, he then being an outsider, a non-member. The participants did agree to forward to Mr. Maher copies of judicial decisions, briefs, proposed legislation, and similar materials that could be of interest to the members, so that Mr. Maher could make a distribution. (Id.) This was in fact done. (Tr. 9-10 [Katz])

The materials which Mr. Katz sent to Mr. Maher were the moving party's exhibits D, G, H, and J in evidence in these proceedings. Exhibit D is an amicus curiae brief filed in the United States Supreme Court in a case involving municipal regulation of video games; G is a letter from Mr. Katz to Mr. Maher which enclosed the "WIPO/UNESCO report on Recommendations For Settlement of Copyright Problems Arising from the Use of Computer Systems for Access to or the Creation of Works," dated August 13, 1982 and obtained from the United States Copyright Office; H is a letter from Mr. Maher to plaintiffs' counsel enclosing a copy of H. R. 6983, a bill then pending in the Congress; and J is a letter from Mr. Maher enclosing some CompuServe computer printouts relating to arcade games which were available to persons who subscribed to CompuServe. When these exhibits were offered in evidence, each was stamped "Confidential."

Sometime after they were received by Mr. Maher, there were two meetings held in the offices of Reuben & Proctor on October 14 and 15, 1982. (Tr. 10-27) Mr. Maher called Mr. Katz and invited him to attend; (Tr. 11) and he was present at both meetings. The purpose was to have Amedee Turner, Esq., an English barrister

who specializes in patent, trademark and copyright matters, inform association members and their counsel about the status of video games under European patent, trademark and copyright laws. (Tr. 11-12 [Katz]) In addition, Mr. Turner was to have an opportunity to educate himself regarding the status of video games under American intellectual property law. (Tr. 12 [Katz]) He is a Queen's Counsel, a member of the European Parliament, Vice Chairman of its Legal Affairs Committee, a Member of its Economic and Monetary Committee, and Rapporteur of the European Trademark Act. (Plaintiff's Exhibit F. p. 1; Tr. 78-79 [Maher]) Mr. Turner was not a member of the association (Tr. 35 [Katz]); but he was particularly interested in American law on video games because he was in charge of writing the intellectual property legislation for the European Common Market. (Tr. 12, 35-36 [Katz])

The meeting of October 14, 1982 lasted the entire business day. (Tr. 16 [Katz]) Besides Messrs. Turner and Maher, the persons present were Dr. Martin A. Keane, the Vice President and Director of Technology of Bally (Tr. 69 [Keane]), Christopher Otis and Thomas Taxon of Destron/G.D.I., and Robert D. Crane, legal representative of Gremlin Sega. (Tr. 15-16 [Katz]);

Plaintiff's Exhibit F, p. 1) Other technical representatives had been invited, but did not attend. (Tr. 85-86 [Maher]) All of the companies represented by those present have interests which, to some degree, are adverse to those of Bally and Midway.

Gremlin/Sega is a member of the association; it competed with Midway in the manufacture of video games. (Tr. 35 [Katz]) Destron/G.D.I. was attempting to bring out a video game, but apparently had not succeeded at the time of the meeting. (Tr. 35 [Katz]; Tr. 73-74 [Keane]) In addition, these companies or their affiliates were then engaged in litigation with Midway. Midway and the parent of Sega were involved in litigation over whether a book on how to play "Pac-Man" infringed Midway's copyrights. (Tr. 38-39 [Katz]) 1/ An association member, Williams Electronics, and Midway were involved in a patent infringement suit. (Tr. 40 [Katz]) 2/ Midway was also engaged in disputes with Atari, its co-plaintiff in this action, over the "Pac-

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1/ Publications International Ltd. v. Bally Mfg. Corp., No. 82 C 2183 (N.D. Ill.) (Bally Midway Mfg. Co.'s counterclaim against Gulf & Western Corp., the parent of Gremlin/Sega.)

2/ Williams Electronics, Inc. v. Bally Mfg. Corp., No. 82 C 2167 (N.D. Ill.)

Man" cassette (Tr. 40-41 [Katz]), and over whether Atari could settle this litigaton without Midway's consent. (Tr. 42-44 [Katz]; Defendants' Exhibit 2) Finally, the nature of the video game business is such that there is always potential litigation among members of the association, including copyright civil actions. (Tr. 47 [Katz].)

The matters discussed consisted of what video games are and how the copyright, trademark and patent laws apply to them. (Tr. 18-22 [Katz]) Various cases in which members of the association had been involved were also mentioned. An electronic circuit board, which Mr. Katz' firm had used as an exhibit in a lawsuit involving "Pac-Man", was used to illustrate some of the discussion. (Tr. 24-25 [Katz]), Tr. 88-89 [Maher]) The meeting was comparable to that of a bar association committee dealing with a specialized area of the law; the kind in which attorneys often participate in the discussion of what can be termed "litigation strategy," even when they are appearing on opposite sides of a case. Mr. Katz and another attorney in his firm, Eric C. Cohen, have published a paper, "Protection of Products From Counterfeiting & Simulation" (Defendants' Exhibit 3), which contains this kind

of discussion, including discussion of this "Pac-Man" litigation. (Tr. 44-45 [Katz]) 3/

The October 15 meeting lasted from about 9 a.m. to about 3 p.m. (Tr. 17 [Katz]); twelve people attended. In addition to Messrs. Katz, Turner, Crane and Maher, the participants were Melvin M. Goldenberg, who is an attorney for Williams Electronics; Bennett M. Shulman, who is counsel for Destron/G.D.I.; Karen Witte, who is counsel for Atari; David Schoenberg, who was an attorney for Stern Electronics; J. Vernon Lloyd, Marshall Burmeister, and R. Murray Burton, all of whom were counsel for Taito America Corporation. (Tr. 16-17 [Katz]; Plaintiff's Exhibit F, p. 3) The companies referred to are all members of the association and competitors in the manufacture of video games. (Tr. 17, 39-40, 46-47 [Katz]) The format of this meeting was essentially a lecture by Mr. Turner on European patent, trademark, and copyright law. (Tr. 87 [Maher]; Plaintiff's Exhibit F) The meeting was an informal

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3/ Mr. Katz testified that he disclosed more at the meeting than in this paper. (Tr. 45) Even so, the matters discussed at the meeting were no different in kind. The description in Mr. Katz' affidavits and testimony of what was said at the meeting could be applied with equal facility to the contents of the paper.

exchange with a prominent foreign official of a sort that commonly occurs before trade and bar association groups.

It is not entirely clear in what capacity Mr. Katz attended these meetings. Only Bally, the parent, and not Midway, the subsidiary, was and is a member of the association. (Tr. 93 [Maher]) Midway was not identified on Bally's membership application (Id.); and Mr. Katz in his testimony distinguished between association members and their subsidiaries. (Tr. 35, 38) He does not represent all of Bally's subsidiaries. (Tr. 55) On the other hand, the fact that Bally was in the video game manufacturing business was known to all concerned (Tr. 93-94 [Maher]), Midway's revenues were included in the figure Bally submitted to the association for the purpose of determining its dues. (Tr. 94 [Maher])

III

A

In urging the disqualification of Reuben & Proctor because of these facts, Midway contends it had derivative membership in AGMA through its parent, Bally; and

that Mr. Maher, the responsible Reuben & Proctor lawyer who serviced the association as a client, knew of Midway's relation to Bally and its interests in the video game manufacturing industry. Therefore, according to Midway's argument, there existed the relation of attorney and client between it and Reuben & Proctor when Mr. Maher obtained the material from Mr. Katz, and when Mr. Katz was present at the October 1982 meetings at which he spoke concerning Midway's theory in this litigation. Midway claims that its "confidences, secrets, legal positions, evidence, manner and strategy of litigation, and documentation" relating to this civil action were communicated in confidence to Mr. Maher at those meetings; and "it was Midway's belief that Mr. Maher was acting as counsel for both the association and Midway with respect to these matters." (Motion to Disqualify, ¶¶ 4-5).

Defendants, and Reuben & Proctor, of course, oppose the motion to disqualify. They argue that although the issue whether a derivative member of an association can claim the existence of an attorney and client relation with a lawyer of the association is an interesting one, it need not be resolved in this case because neither the materials furnished Mr. Maher by

Mr. Katz nor the facts he revealed at the October 1982 meetings were confidential; nor were the circumstances such that Midway, through its patent counsel, could have reasonably believed that it was consulting and dealing with the association lawyer as part of a professional relationship, and thus entrusting confidences to the attorney under circumstances as to be entitled to confidentiality.

B

It appears in this case that Reuben & Proctor had no direct professional relationship with nor had it ever been engaged by Midway or its parent, Bally, as lawyers to represent them. (Tr. 3). The source of the claim that this firm of lawyers are disqualified by prior representation of Midway rests solely on the claim that Bally, the parent corporation, became a member of AGMA on November 20, 1982, and that Midway was and still is its subsidiary. This claim is reinforced by calling attention to the fact that at all times in question Mr. Maher knew of the relationship between Bally and Midway and of the latter corporation's interest in the video game manufacturing industry. It

is conceded by Midway through its counsel that a lawyer's representation of a trade association does not by that fact alone require disqualification of the lawyer from representing interests adverse to those of an association member, after termination of the relationship of lawyer to the association. The parties appear to agree that it is necessary for a member seeking disqualification of an association counsel to establish that its representative reasonably believed that when consulting the lawyer for the association there was consulting and dealing with the association lawyer as part of a professional relationship; and that the representative was entrusting confidences to the lawyer under circumstances as to be entitled to confidentiality. (Tr. 5-6, 100 [statements of Midway's counsel]). It appears to be accepted by Midway that in addition, as is the fact in any other case where the disqualification of a lawyer is sought because of prior professional relationship, the movant must establish that matters involved in the prior representation are substantially related to those at issue in the present case. It is Midway's position in these proceedings that the disqualification issues in this case are controlled by Canon 4, ABA Code of Professional Responsi-

bility which provides that "[a] lawyer should preserve the confidences and secrets of a client;" and by Canon 9 which requires that "[a] lawyer should avoid even the appearance of professional impropriety."

This court agrees with defendants that it need not make any generalized pronouncement on whether a firm of lawyers that represents a trade association like AGMA also represents every corporate member and its subsidiaries "because this case can and should be decided on a much more narrow ground." Westinghouse Elec. Corp. v. Kerr-McGee Corp., 580 F.2d 1311, 1319 (7th Cir. 1978). That narrower ground requires this court to decide whether on the occasions when Mr. Katz, Midway's representative, communicated or had contact with Mr. Maher, there was any reasonable perception of privileged relationship, and whether the information he imparted was of a confidential nature.

In doing so, this court bears in mind that the ABA Canons of Professional Responsibility are not inevitably invoked whenever a law firm seeks to represent a party in a suit against a member of an association that the firm represents. Glueck v. Jonathan Logan, Inc., 653 F.2d 746, 749 (2d Cir. 1981). It is the rule in this circuit that "an attorney-client relationship does

not arise only in the agency manner such as when the parties expressly or impliedly consent to its formation;" it can arise when a lay party submits confidential information to a lawyer with reasonable belief that the latter is acting as the former's attorney. Westinghouse Elec. Corp. v. Kerr-McGee Corp., supra, at 1317. The relationship is not dependent upon the payment of fees, Allman v. Winkelman, 106 F.2d 663, 665 (9th Cir. 1939); nor upon the execution of a formal contract. Udall v. Littell, 125 U.S. App. D. C. 89, 97, 366 F.2d 668, 676 (D.C. Cir. 1966).

The privilege in regard to communications between an attorney and a client is limited to confidential communications; thus, it is a rule of universal application that a communication made to an attorney in the presence of a third person is deemed an open communication as distinguished from a confidential one. See Matter of Walsh, 623 F.2d 489, 495 (7th Cir. 1980); Hills v. State, 61 Neb. 589, 595, 85 N.W. 836, 57 L.R.A. 155 (19); In re Fisher's Will, 67 Ohio App. 6, 35 N.E.2d 784, 786 (19). And it has been held that the mere delivery of papers to an attorney does not create a privileged relationship nor the privilege of attorney and client where it did not exist before.

United States v. White, 326 F.Supp. 459, 462 (S.D. Tex. 1971).

C

For this reason, the materials that Midway's patent counsel, Mr. Katz, sent to Mr. Maher in February or March, 1982 (Tr. 9-10 [Katz]) could not have been privileged or confidential documents. They were not treated as such at the time, even though when they were offered in evidence in these proceedings each bore the stamp "Confidential," but Mr. Katz was unable to say when they were so marked. It is clear that the materials he sent to Mr. Maher were simply the exchanging of public information regarding subjects of mutual interest. No sort of professional or fiduciary relation between Reuben & Proctor, acting through Mr. Maher and Midway, was involved. At the time, Bally was not a member of the association; Midway could not have been a derivative member of AGMA.

Midway's evidence in support of its motion for disqualification rests almost solely on the testimony of Mr. Katz who has stated under oath that at the two October 1982 meetings he "perceived [Mr. Maher's] role

as also being representing Midway's interests". (Tr. 15) He has also reaffirmed the averments of his affidavits in which he asserted that "[i]t was my understanding and belief that some of the information relating to copyright protection of audiovisual works of video games including Pac-Man, the issues involved in this very action, communicated to Mr. Maher during my meetings with him on behalf of Midway was sensitive and confidential," (Plaintiff's Exhibit M, ¶2), that "I would never have made such statements and disclosures if I had any inclination that any person present was or would become an adverse party or act as legal counsel for an adverse party on these issues," that "[i]t would have been unthinkable to me at that time to relate such information to a defendant, or defendant's counsel, in this case," and that he acted "under the belief that there was a relationship of trust and confidence between Mr. Maher and Midway." (Plaintiff's Exhibit L, ¶¶ 12, 14; Tr. 27 [Katz])

The court carefully observed Mr. Katz as he testified and it received the distinct impression that the witness was trying very hard to make it appear, from his testimony and his description of what went on in those two meetings, that in the presence of Mr. Maher

he was revealing confidential information. The court concludes that none of the matters discussed by the persons present at the two meetings were confidential; instead, they consisted of ordinary details of a lawsuit that any lawyer would talk about in the presence of other individuals, including lawyers -- even opposing lawyers. None of the information discussed by Mr. Katz was of the kind that could not have been obtained by Mr. Maher elsewhere. Mr. Maher has denied under oath that as general counsel of the association he received any confidential information from Mr. Katz. (Tr. 118)

Relevant to the issue of Mr. Katz' perception of Mr. Maher's role as representing Midway's interests, and the confidential nature of the disclosures at those meetings are the general circumstances surrounding them, their format, the presence of competitors and adverse parties to litigation, the ambiguous capacity in which Mr. Katz and others attended, and as important, the status of Mr. Amedee Turner, who the evidence does not show was then acting or being considered as counsel for the association. Mr. Katz, an attorney of 17 years' experience (Tr. 6 [Katz]), is charged with the knowledge that communications cannot be privileged

if they are made in the presence of a stranger. See Wigmore, Evidence §2311(M'Naughton rev. 1961); McCormick, Evidence §95 (2d ed. 1972); cf. United States v. Gordon-Nikkar, 518 F.2d 972, 975 (5th Cir. 1975). Moreover, and of greater importance, Dr. Keane, a senior executive of Mr. Katz' client, testified that he would never have provided any technical information to his competitors that was not readily available to them. (Tr. 74 [Keane]) This court does not believe that Mr. Katz was less circumspect.4/

Therefore, it cannot credit Midway's assertion that the two October meetings involved a professional relation with the Reuben & Proctor firm and thus entitles what went on to confidentiality. Rather, the court concludes that the matters discussed at the meetings were not confidential; and that Midway's representative, its patent counsel, Mr. Katz, did not have a reasonable basis for the belief that Mr. Maher was

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4/ Midway makes much of the fact that Mr. Maher said he would not have expected Mr. Turner to disclose what transpired at the meetings. (Tr. 82 [Maher]) That does not change Mr. Turner's status. Thus, a domestic legislator who meets with a group interested in pending legislation for a frank exchange of views would not be expected to publicize what was said; but no one would believe that the legislator was acting as an attorney.

being entrusted with confidential information.[5/] Our court of appeals has "continuously maintained that disqualification [of a law firm] is a 'drastic measure which courts should hesitate to impose except when absolutely necessary'." Schiessle v. Stephens, 717 F.2d 417, 420 (7th Cir. 1983). In this case, it is the judgment of the court that Midway's motion to disqualify Reuben & Proctor must be denied because the firm did not owe Midway any fiduciary obligation that would preclude its participation in this case as counsel for defendants. See Novo Therapeutisk Laboratorium v. Baxter-Travenol Lab., 607 F.2d 186 (7th Cir. 1979); cf. Freeman v. Chicago Musical Instrument Co., 689 F.2d 715 (7th Cir. 1981). An appropriate order will be entered.

So ordered.

George N. Leighton
United States District Judge

Dated: DEC 7 1983

5/ Mr. Katz' affidavit (Plaintiff's Exhibit L) also referred (¶13) to a July, 1982 meeting at which Association members and their counsel discussed remedies available before the United States International Trade Commission. There clearly could have been no expectation of confidentiality with respect to that meeting because one of the participants was a Commission representative. (Tr. 28-29 [Katz]; Tr. 81 [Maher]) Citing this meeting is another example of the extent to which Midway would go to create a confidential relation where there was none.